

Submission by



to the

Ministry for the Environment

on the

Phasing out fossil fuels in process heat

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PHASING OUT FOSSIL FUELS IN PROCESS HEAT CONSULTATION DOCUMENT – SUBMISSION BY BUSINESSNZ¹

INTRODUCTION

1. BusinessNZ is pleased to have the opportunity to provide feedback on the consultation paper 'Phasing out fossil fuels in process heat' published by the Ministry for the Environment in April 2021.
2. BusinessNZ acknowledge the need for action on climate change. New Zealand must manage our emissions to protect the environment and the economy from the detrimental effects of climate change. Meeting our climate change commitments is an important part of staying globally competitive and maintaining our social license to operate. Businesses have an important role to play to reduce emissions in New Zealand as many of the actions and investments that must be made to achieve emissions reductions will be made in the private sector.

GENERAL COMMENTS

Consultation should await outcome of Climate Change Commission advice

3. It is important to consider opportunities across the entire economy, understanding the trade-offs between sectors in order to take a co-ordinated approach. The Climate Change Commission has consulted on its draft advice to government which includes emission budgets. This work includes workstreams focussed on Heat, Industry and Power, and cross-sector issues. The consultation received a significant volume of feedback on a range of issues. This advice is due to be finalised and presented to the government by the 31 May 2021, so the final advice to government is not yet known. The Ministry's document seems to pre-empt the findings of the Commission's final advice, undermining its consultation process. It would be prudent to wait for the outcome of the final advice which includes any changes made as the result of submission feedback received.
4. Further to this point, the workstream dedicated to Heat, Industry and Power (HIP) is expected to investigate alternative energy supply as part of the next phase of work to prepare an emissions reduction plan. Ensuring viable alternate options are available is an important step towards phasing out fossil fuels which should be undertaken before restrictions are put in place on businesses current fuel supplies.

Changes must be considered in their wider context

5. Any changes to reduce emissions must be considered as part of their wider context to ensure we meet emissions targets at the lowest possible abatement cost and remain focussed on the desired outcome of reducing net emissions.
6. The proposed changes suggest treatment specific to one sector, one particular process and for given fuels - industrial process heat for low to medium temperature applications for coal and other fossil fuels. Such a siloed, sector, fuel and process specific approach to emissions reduction efforts should be avoided as it may be counterproductive to the desired outcome, creating barriers to cross-sector collaboration, implicitly blocking access to alternative mitigations for hard-to-abate areas, and effectively imposing gross emissions targets within the given domain, as opposed to New Zealand's overall net-zero emissions target. For any technology or sector, the last few percent of reductions is the most difficult. As a result, this approach will increase costs to reach emissions targets and may not achieve emissions reductions. While governments may have aspirations for various parts of the system, any actions likely to change incentives in one

¹¹ Background information on BusinessNZ is attached as Appendix One.

part, in isolation, should be approached with caution as they may suppress the carbon price elsewhere, likely reducing abatement in other areas.

7. More specifically, any ban on a particular fuel source risks creating unnecessarily high abatement costs and regulatory complexity. As sector, process or fuel specific regulatory tools for emissions reduction become more widespread, they will become increasingly necessary across all sectors of the economy, adding complexity. This makes it difficult to objectively identify opportunities with the lowest marginal abatement costs. A ban may only serve to deter investment, stifle innovation and limit available opportunities to decarbonise. We would encourage the Ministry to keep an open mind about alternative options that may decrease emissions. For example, the development of zero carbon fuels such as green hydrogen or biogas which could reduce emissions while making use of existing infrastructure.
8. Policies that are neutral between technologies and sectors and fully account for costs are likely to prove the most efficient, avoiding unintended negative consequences. BusinessNZ supports a fuel agnostic approach when considering regulatory changes to ensure equitable pricing signals, avoid unnecessary controversy and excessive complexity.

ETS primary mechanism to manage emissions

9. An economy-wide carbon price is the best option to achieve effective and efficient decarbonisation of New Zealand's economy. A universal, market-based mechanism places a price on emissions connecting the price emitters pay to marginal abatement costs, irrespective of the fuel used. This will effectively incentivise carbon reduction efforts and ensure previously uneconomic technologies and process become viable in an efficient manner.
10. The primary mechanism to achieve emissions reductions should be the Emissions Trading Scheme (ETS). The government has undertaken measures to improve the performance of the ETS. The ETS should be allowed to do its job and the effect of any changes should be tested. Any other non-price related interventions should only follow where there is demonstrable market failure. Non-price policies should focus on outcomes and promote efficiency.

Additional costs to business

11. Changes should avoid unnecessarily imposing higher costs on business. The proposed changes would introduce significant costs for businesses, high capital costs to replace existing assets, compliance costs associated with additional consenting activities, such as the onus to demonstrate no other technically feasible option, and meeting new compliance requirements including preparing a GHG emissions plan.
12. The document states it is "unclear whether GHG emissions plan and best practice requirements will achieve material reductions in emissions that outweigh corresponding compliance costs." This is concerning, particularly when businesses are already facing increasing costs. In the worst-case scenario this could lead to a loss of jobs in New Zealand as our businesses fail to compete with those overseas who are not exposed to such requirements.
13. Any policies developed to directly signal behaviour change should be subject to cost benefit analysis and regulatory impact statements.

Caution required to avoid chilling investment

14. Many of the actions required to achieve emissions reductions will be made by the private sector. Businesses will have to change behaviours, make new investments with different criteria, and take some of the commercial risk that will arise from transitioning to a low carbon economy. It is vital to engage with businesses to discuss proposed changes and seek meaningful input.
15. The proposed changes will affect a range of different businesses, of varying sizes, and to a varying degree. One of the key barriers to the uptake of new technology is the sunk costs for

existing assets and high capital costs of replacement. Each business may be in a different part of their investment cycle, and therefore have differing abilities to adjust, absorb cost and invest.

16. We support the objectives to provide clear direction and ensure consistent decision making. However, some of the options proposed may introduce greater uncertainty as consent authorities will need to assess whether fuel alternatives are technically and economically feasible, or determine exemptions. This may create complex and costly case-by-case assessments. We do not support this kind of discretionary approach which would undermine the security of property and assets, damage investment incentives and disincentivise innovation.
17. The mentioned timeframes (5-10 years) for consents would also have a chilling effect on investment decisions. The proposed timeframe is insufficient for making such investment decisions with potentially high capital costs.
18. We support an approach to emission reductions that is outcome focused. This will provide business with the confidence they need to invest in lower emissions technology but leaves flexibility on how to achieve them.

Avoid further unintended consequences

19. Any policy changes which seek to improve our environmental sustainability should also take into consideration impacts on the availability, affordability and security of the energy system as a whole. Enforcing a ban or restriction may cause several unintended consequences affecting the future security and affordability of energy.
20. Lower demand for fossil fuels for process heat may lead to a lack of investment in infrastructure. In future this may affect supply for other uses. Gas and coal play an important role in the electricity market providing firming generation when intermittent renewable resources are unavailable. These fuels are also important feedstock, for example, coal which is required to produce steel, or natural gas to produce methanol. This is particularly concerning given a number of future scenarios, including those presented by the Climate Change Commission indicate an ongoing role for natural gas until 2050 in order to provide the flexibility and diversity required in our energy system. There is a risk we end up relying on imported coal or LNG to ensure supply. Future-proofing our energy system means considering alternative solutions, diversification of supply and ensuring technologies have equal market opportunities.
21. A ban will force process heat users to compete for a limited quantity of supply. Evidence suggests that process heat users converting to biomass as a feedstock will face competition from other hard-to-electrify sectors for a limited biomass supply as biorefinery technology becomes financially viable. This raises concerns over alternative energy supply for some organisations. Further work on the supply of alternative fuels is expected to be undertaken as part of the Heat, Industry and Power Emissions Reduction Plan work this year. Sufficient alternative fuel supplies should be available before restrictions are put in place on businesses current fuel supply.

SUMMARY

22. We support a fuel agnostic approach when considering regulatory changes to ensure equitable pricing signals, avoid unnecessary controversy and excessive complexity.
23. We support effective and efficient decarbonisation of New Zealand's economy. An economy-wide carbon price is the best option to achieve this. The ETS should be allowed to do its job and any other non-price related interventions should only follow where there is demonstrable market failure.
24. We do not support bans. The proposed bans are a one size fits all approach.
25. We support the intent to provide clear direction and ensure consistent decision making. However we do not support any option which would create complex and costly case-by-case assessments.

26. We support an approach to emission reductions that is outcome focused. This will provide business with the confidence they need to invest in lower emissions technology but leaves flexibility on how to achieve them.

Appendix One - Background information on BusinessNZ



BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and the Business and Industry Advisory Council ([BIAC](#)) to the Organisation for Economic Cooperation and Development ([OECD](#)).